BUILDING THE NEW SASKATCHEWAN

DEVELOPMENT GUIDE

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New Generation Co-operatives Development Guide

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How To Develop A New Generation Co-operative

What is a New Generation Co-operative?

New Generation Co-operatives (NGCs) represent an emerging trend. NGCs use the governance structures of traditional co-ops, such as democratic control represented by one-member, one-vote. However, this new model typically requires higher levels of equity investment from its members. Membership is limited to those who purchase delivery rights and members generally have a contract with the co-operative, stipulating delivery rights and obligations.

New Generation Co-operatives add value to raw product through secondary processing. There is interest in forming these co-ops in emerging specialty markets such as bison, pasta, wild boar, herbs and spices. New Generation Co-ops offer innovative options to process products in Saskatchewan, creating jobs throughout the province.

The ***New Generation Co-operatives Act*** provides the legal framework for this exciting new economic development tool.

What do you need to get started?

- A business opportunity
- People who want to pursue the opportunity and invest in it
- A willingness to enter into a producer contract, and
- Enthusiasm and the desire to co-operate

The First Steps

Identify the opportunity

Every new business venture begins with an idea, which could be a new product or service or a variation on an existing one.

Generally, agricultural producers market unprocessed products such as grain, fruit, vegetables or livestock. These are subject to highly variable prices based on supply and demand – often in the volatile international market place.

Processing such products locally may be a business opportunity.

Choose an organizational structure

There are numerous organizational models available including traditional business structures and the New Generation Co-operative. The important features of a New Generation Co-operative include:

- one member-one vote applies regardless of equity;
- members must provide the equity required through the purchase of shares;
- members must commit to entering into a contract to deliver a prescribed amount of product to the co-operative; and,
- members must be willing to participate in the development work and ongoing committee and board structures.

Unlike other business types, co-operatives by their nature are collective or group activities. The size of the group required will be determined by the nature of the project, but at least six individuals are required to incorporate a co-operative.

This guide assumes that a New Generation Co-operative structure is the preferred approach.

Establish the interim board

After deciding to establish a New Generation Co-operative, the group's next step is selecting an interim board of directors. The board should then start a feasibility study.

Assess feasibility of your business

A feasibility study is usually required to assess a major project. It should be undertaken by someone independent of the co-operative who has knowledge of the industry, and should address the following:

- market opportunities;
- competition;
- start-up costs;
- capital costs;
- production costs;
- investment requirements;
- amount required and availability of raw product;
- size of membership required;
- potential return on investment; and
- personnel and management requirements and availability.

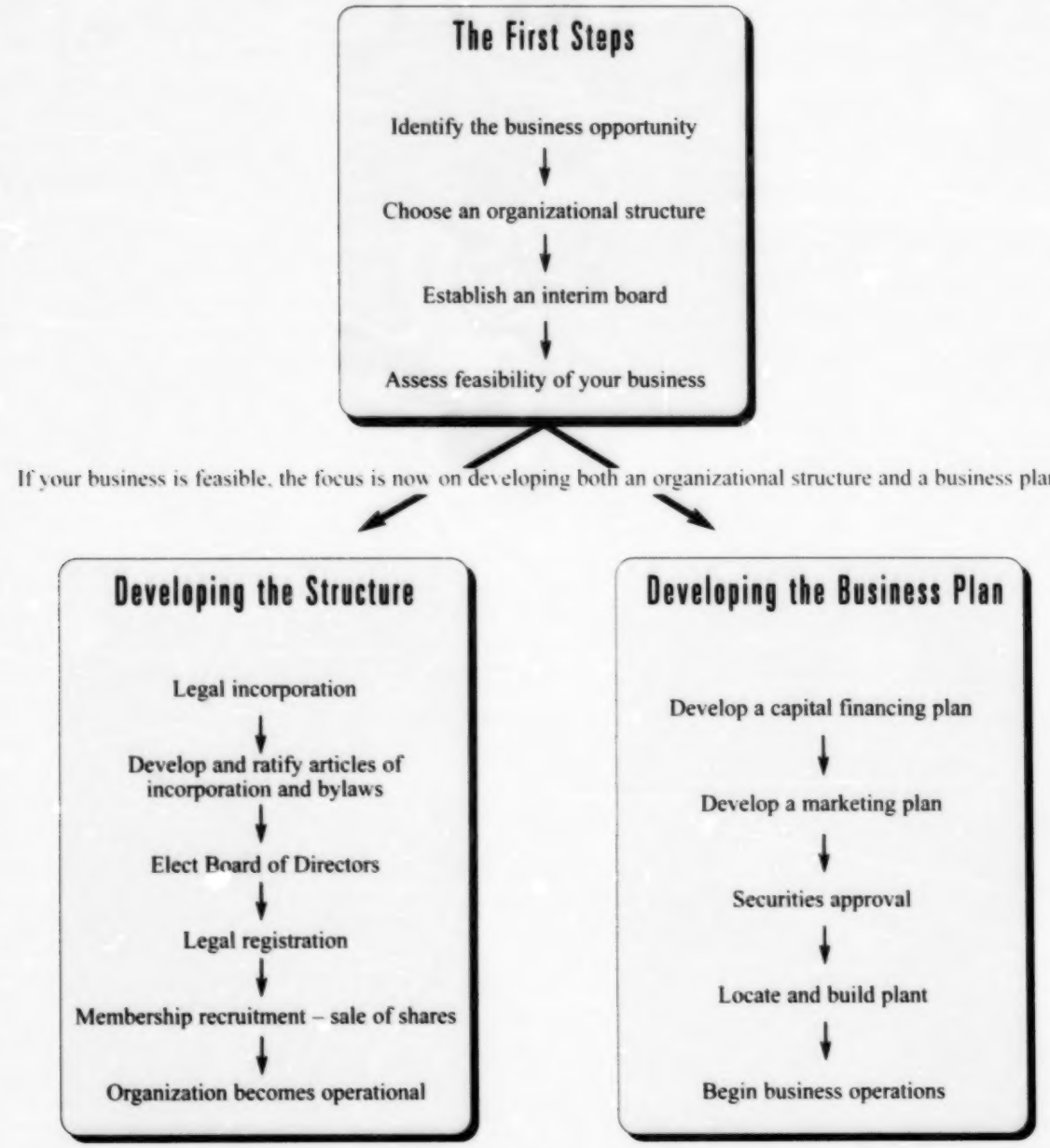
The results of the feasibility study will provide an assessment of the potential for success, but it is not a guarantee. It will help members of the group determine whether they wish to proceed.

The Next Steps

The two key areas which must next be addressed are: developing an effective co-operative organization, and achieving a viable and sustainable business plan.

The Co-operative Development Process

The following chart sets out the key steps in developing an NGC. The precise order may vary from project to project. It begins with a single streamed process which identifies and assesses a business opportunity. Detailed descriptions of each step can be found on the following pages.


The First Steps
Identify the business opportunity
Choose an organizational structure
Establish an interim board
Assess feasibility of your business
If your business is feasible, the focus is now on developing both an organizational structure and a business plan.
Developing the Structure
Legal incorporation
Develop and ratify articles of incorporation and bylaws
Elect Board of Directors
Legal registration
Membership recruitment – sale of shares
Organization becomes operational
Developing the Business Plan
Develop a capital financing plan
Develop a marketing plan
Securities approval
Locate and build plant
Begin business operations

Developing the Organizational Structure

A successful co-operative must develop an effective organizational structure that reflects the needs and interests of its members and enables it to establish a successful business operation.

Legal incorporation

Legal incorporation includes the development of Articles of Incorporation and Bylaws.

Articles of Incorporation represent an agreement between members on the core functions and objectives. The articles also establish the share structure that will provide the financing for implementation of any business plan. The Articles of Incorporation must set out:

- the name of the co-operative;
- provisions relating to the share structure, including:
  - par value and number of common shares
  - provisions, if any, relating to member right shares
  - provisions, if any, for other classes of preferred shares including whether such shares may be sold to the public;
- the minimum/maximum number of directors and the names of the first directors; and,
- the objectives of the co-operative and any restrictions on the business of the co-operative.

Section 6 of the ***New Generation Co-operative Act*** details these requirements fully.

Bylaws set out the basic rules and guidelines within the Act, by which a co-operative governs itself. Section 7 of the ***New Generation Co-operatives Act*** lists the areas which the bylaws must address.

Elect Board of Directors

The directors play an important role in a co-operative. As the elected representatives of the members, directors are responsible for the overall management of the co-operative's assets and activities. This includes hiring of a general manager and general stewardship of the co-operative.

Legal registration

Articles of Incorporation and Bylaws must be registered by the Corporations Branch, Saskatchewan Justice in the form set out in Regulations.

Membership recruitment and sale of shares

The final stage of the development process is the recruitment of members. This includes raising the equity required to become operational. This will be detailed in the business plan.

Developing The Business Plan

A comprehensive business plan is essential for the organization to realize its objectives. The business plan will establish capital requirements to develop and operate the business. This includes:

- a capital financing plan,
- a marketing plan, and
- a plan to build, develop and operate the production plant.

Develop a capital financing plan

New Generation Co-operatives are primarily financed through the use of member right shares. These are a form of preferred shares linked to the right and obligation of members to deliver a prescribed amount of raw product to the co-operative for processing. The co-operative may also issue other forms of preferred shares to both members and non-members.

Member right shares and delivery contracts

This form of shares is a new feature of ***The New Generation Co-operative Act***. It is a non-voting share (each member automatically has one vote).

The price of member right shares is usually calculated by determining how much capital is required to be raised by the sale of the shares and dividing this total by the number of units of product required.

The value of these non-par value shares will be determined by their market value and may increase or decrease accordingly.

Other Preferred Shares

The ***New Generation Co-operatives Act*** permits the issuance of preferred shares to both members and non-members. These shares, subject to certain conditions, are non-voting, although the members in the Articles of Incorporation may permit non-member investors to elect up to 20% of the board of directors.

Develop a marketing plan

To ensure that a co-operative is able to operate as a sound business, it must analyze its market before getting underway. This is essential to ensure that there is a market for the product being produced at a price that purchasers are prepared to pay.

Securities approval

An offering of shares or other securities, unless exempted by the Act or Regulations, must be approved by either the Co-operative Securities Board or the Saskatchewan Securities Commission. For more information on these steps contact the Saskatchewan Securities Commission at (306) 787-5645.

Locate and build the plant

The location of the plant should not be decided until all economic factors have been considered. Location is critical to the success of most ventures and should be chosen on the basis of factors that will give the enterprise the best chance of success. Factors to consider are:

- proximity to members and markets;
- transportation routes, highways, railways;
- availability of labour;
- availability of land and buildings; and,
- levels of taxation, environmental and other regulations.

Saskatchewan Economic and Co-operative Development can help you along the way. You'll find us throughout the province, ready with advice and assistance. For more information, please contact the Co-operative Development Co-ordinator at 1-800-265-2001 or the office nearest you:

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This document was prepared as a guide and does not provide comprehensive information on all of the specific issues that individual groups will likely have to address. Most groups, in developing their projects, will be required to supplement this information by accessing other resources.